MARKET OVERVIEW

RECORD STUDENT NUMBERS AND PARTICIPATION RATES

Full-time student numbers reached 2.1 million for 2020/21

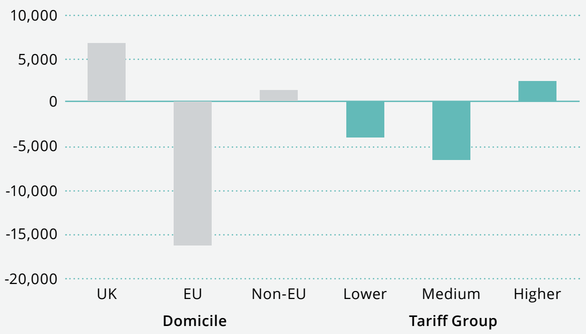
The number of applicants and the number of students accepted onto courses in 2021 was 750,000 and 562,000 respectively (2019: 729,000 and 570,000). The 1% year-on-year (YoY) reduction in acceptances reflected a record participation rate among UK 18-year-olds and further growth in non-EU students but this growth was more than offset by a 50% reduction in EU acceptances following Brexit.

The reduction in EU student numbers was higher than our initial expectations for a 40% fall in demand post-Brexit. It is unclear at present to what extent this has been driven by increases in tuition fees and loss of access to tuition fee loans for EU students or the influence of travel disruption caused by the pandemic. Reflecting this impact, our share of beds let to EU students reduced to 5% for the 2021/22 academic year, down from 9% in the prior year.

Higher tariff universities once again outperformed, reflecting an ongoing flight to quality by students, with a 1% increase in acceptances, which compared to reductions of 4% and 2% for medium and lower tariff institutions respectively.

The initial applications data for the 2022/23 academic year is encouraging, with overall applications up 7% on pre-pandemic levels in 2020/21. This reflects a 5% increase in applications by UK school leavers, who represent our key customer group, driven by a record application rate of 43.4% (2020/21: 42.6%) and demographic growth. Non-EU applications increased by 5% year-on-year, reflecting strong demand from China and India as well as less mature markets such as Nigeria. Overall, applications from international students are unchanged year-on-year, reflecting a further reduction in demand from EU students following Brexit.

YoY change in university acceptances by domicile and tariff group (2021/22)



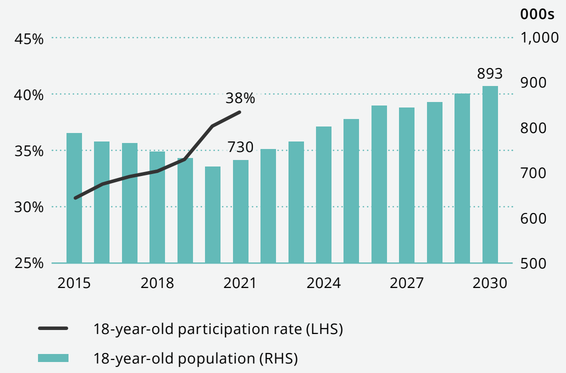
Source: UCAS

The Government has announced that A-level grading will return to pre-pandemic levels over the next two years with grading in 2022 to reflect a midway point between 2021 and 2019. This clarity will support universities in their offer making to students for the 2022/23 academic year and is expected to result in a more normal distribution of students among institutions next year.

Growing demand for Higher Education

The long-term outlook for student numbers remains strong. Demographic growth is significant over the next decade, with the 18-year-old population returning to the height of 2010 by 2024 and continuing to grow strongly thereafter. This would imply demand for around 200,000 additional UK undergraduate places by 2030 at current participation rates. We do not expect this new demand to be distributed evenly, with growth likely to be concentrated in high-tariff and teaching-led Universities delivering strong graduate outcomes. Regional differences in demographics are also significant. London sees the greatest demographic growth over the next 10–15 years and is therefore expected to see the greatest increase in student demand.

18-year-old population and participation rate



The Government is also targeting further growth in international student numbers by actively seeking to increase the UK's share of international students from Africa, the Middle East and Asian countries, outside of China.

MARKET OVERVIEW continued

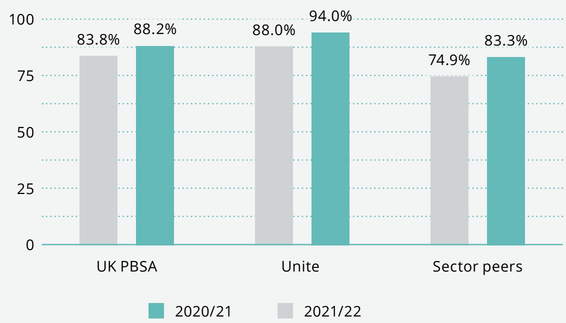
Resilient occupancy and rental growth

The UK PBSA market delivered rental growth of 1.7% for the 2021/22 academic year, broadly in line with the 1.6% delivered in 2020/21, with growth somewhat depressed by vacancy in some markets as a result of disruption created by the pandemic. JLL's Student Housing Leasing Survey reported a recovery in occupancy to 88% in 2021/22 from 83% in 2020/21 across the sector. Our occupancy and rental growth in 2021/22 (94% and 2.3% respectively) both outperformed the wider sector, reflecting the strengths of our best-in-class operating platform, income visibility through our nomination agreements and alignment to the strongest universities.

For the 2021/22 academic year, average weekly ensuite rents for corporate PBSA ranged from £130–235 per week in major regional markets and £265 per week in London. This compares to our average weekly ensuite rent of £141 in regional markets and £222 in London. The largest segment of PBSA demand remains at a price point of between £100 to £150 per week, where there is also the opportunity to attract and retain more non-1st-year students from the private rented sector. Around two thirds (66%) of our beds in regional markets are priced below £150 per week.

Current UK inflation implies an increase in rental growth from multi-year nomination agreements with fixed or inflation-linked annual rental increases for 2021/22 to around 4%. Based on our expectation of strong student demand and a further easing of international travel restrictions, we anticipate a return to full occupancy and rental growth of 3.0–3.5% in 2022/23.

Occupancy comparison (Unite vs sector peers)



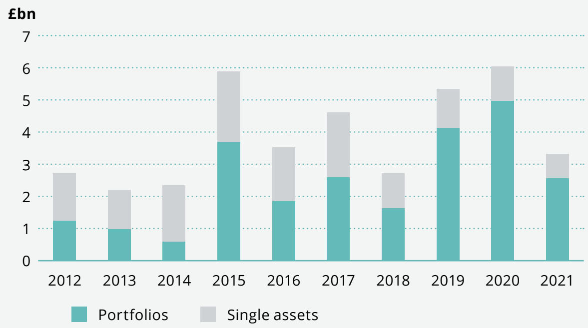
Source: JLL

Strong investment appetite

The PBSA sector's strong fundamentals and a track record of consistent rental growth continues to attract significant volumes of capital. Approximately £3 billion of assets traded in 2021, below the volumes seen in the previous two years due to a shortage of available stock in the market. North American investors were the dominant buyers of portfolios during the year, reflecting investment appetite from private equity buyers.

There remains a strong appetite to deploy capital in the sector, with investment demand principally coming from international or institutional investors. Investors are increasingly focused on the strength of location, the health of local universities, building amenities and fire safety. Larger investors also recognise the value created by specialist operating platforms, which are capable of delivering a higher consistency of product and service to customers alongside cost efficiencies through scale. As a result, we would expect larger operating platforms of 10,000 beds or more to attract a portfolio premium if they come to the market.

UK student accommodation investment volumes



Source: CBRE

Valuation growth supported by yield compression

Capital values rose across the student accommodation sector in 2021, driven by rental growth and yield compression. Yields for UK student accommodation reduced by c.10–25 basis points in the year, reflecting increased competition for assets from larger operators and private equity as well as the attractive income characteristics of the sector. We have continued to see capital growth outperformance by London and other prime regional markets. However, there has also been increased investor interest for assets in weaker locations and cities in the past 12 months.

Looking forward, we see yields remaining broadly stable in 2022, albeit with continuing polarisation between prime and secondary markets in a competitive market for student numbers.

An indicative spread of direct-let yields by location is outlined below:

Indicative direct-let yields by location

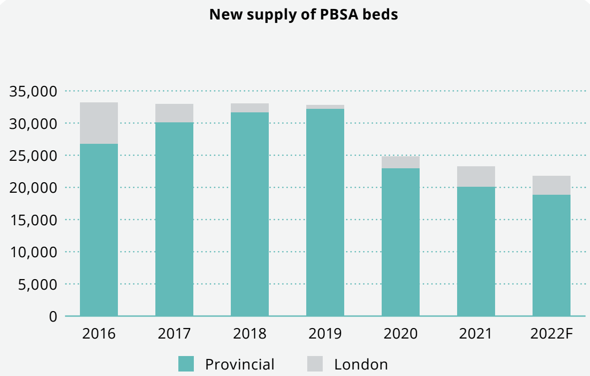
	31 Dec 2021	31 Dec 2020
London	3.65–4.10%	3.90–4.25%
Prime regional	4.50–4.75%	4.50–5.00%
Major regional	5.00–5.75%	5.00–6.00%
Provincial	6.00–7.50%	6.25–7.50%

New supply slowing

The PBSA sector now provides homes to over 700,000 students, representing around one-third of the UK's student population. At this level, there still remains a c.365,000 shortfall in beds compared to the numbers of 1st-year and international students, before taking account of the increasing numbers of 2nd and 3rd-year students who are choosing this type of accommodation.

2021 saw the delivery of an additional 23,000 beds across 37 different UK markets, around two thirds of which was delivered in the 25 cities in which we operate. There has been a reduction in new supply in the past two years, which is partly explained by short-term disruption created by the pandemic but also some more fully supplied markets adjusting to higher levels of recent supply. New supply in London remains constrained, with only 3,000 beds delivered in the year, reflecting limited land supply and more restrictive planning requirements for student accommodation in the new London Plan. We expect new supply to run at around 15,000–25,000 beds p.a. in the next two to three years.

The new London Plan requires new student accommodation developments to secure a nomination agreement with one or more Higher Education providers as well as the provision of at least 35% of units at affordable student rents. Moreover, local authorities are increasingly keen to promote new supply in the Build to Rent (BTR) sector, creating increased competition for development sites in major UK cities. We see a trend towards mixed-use planning consents, incorporating BTR units alongside student accommodation. These factors increase barriers to entry for new PBSA supply, however we remain confident in our ability to secure new development opportunities thanks to our long-held university relationships, flexible operating platform and highly experienced development team.



Source: Cushman & Wakefield

Development costs increasing

Demand in the UK construction sector has recovered strongly following the initial slowdown in activity created by the pandemic. This coupled with supply chain disruption, increasing raw material costs and pressures on availability of skilled labour in some trades has led to inflation in build costs of around 5% during 2021. We expect build costs to rise by around a further 3–5% in 2022, followed by a return to increases of 2–3% from 2023 as the market adjusts to current pressures around supply of materials and labour.

Land prices have increased in regional markets over the past year despite rising build costs. This reflects increasing demand from PBSA developers as well as competing uses such as BTR, scarcity of sites in some cities and rising investment values. Land price inflation remains more muted for larger sites capable of delivering greater than 500 beds, which remain the target for our land purchasing.

Growing focus on environmental sustainability

There is a growing focus on environmental sustainability in the student accommodation sector. Many governments reiterated pledges to reduce emissions at COP26 and it is clear that business and industry will need to play a big part in delivering these changes. Increasing Minimum Energy Efficiency Standards (MEES) will also require significant investment across the purpose-built sector and HMOs to meet new requirements for EPC ratings of C by 2027 and B by 2030 for private rented property. There are significant challenges in improving older building stock and many HMOs are not fit for purpose. We estimate a potential cost to student HMO landlords of £10–12 billion for required investments in energy efficient technologies and building fabric based on an average improvement cost of £40,000–50,000 for a typical shared property. These costs may reduce through technological innovation, Government subsidy or exemptions but private landlords will still be required to make a significant investment in their properties over the next decade.

Our research shows that students are more concerned about climate change than any other issue. We expect this to become a major influence in their choice of accommodation, impacting occupancy and rental growth over the long-term. Our sector leadership in sustainability, reflected in our ambition to achieve net zero carbon by 2030, creates a significant opportunity to positively differentiate our customer offer and attract more students from the HMO sector over time.

We are yet to see clear evidence of a 'green premium' or 'brown discount' emerge for PBSA in investment markets but expect this to happen over the medium-term, as has already been seen in the office sector, as sustainability considerations grow in importance for stakeholders.